



# Commodity price trends and implications on inflation and growth

## Overview

Commodity prices have accelerated strongly due to global recovery and approached gradually to their pre-crisis level. Where will trend in 2011? How will they affect global inflation and growth? We attempt to answer these two questions from a very macro perspective.

Based on analysis on the general factors at global level, together with the specific factors linked to each market, we draw a picture of commodity price trends in 2011 as follows.

- Energy prices are likely to fluctuate in a reasonable band with a moderate upward trend, with oil prices moving in a range of USD 80-120 per barrel this year. Geopolitical risk could cause oil prices very volatile in the short term but will not last long.
- Food prices will continue to face tight upward pressure early this year. Due to a quick adaptation and increasing planting, we expect food production to rise and then food prices to fall, unless another severe bad weather shock.
- Base metal prices are to keep rising, as long as its largest consumer – China – keeps its growth above 9% YoY in 2011 pulled by investment on high speed railway, welfare housing and western region development. But the size of the hikes is likely to be moderate given the reasonable levels of stocks.
- Precious metal prices including gold in particular will continue to trend upward given remaining concerns on European debt crisis and global recovery and rising inflation in the short term, and strong and persistent demand of emerging countries due to appetite of reserve asset diversification in the long term. The gold prices are likely to move in a range of USD 1300 – 1600 per troy ounce this year.

The impact of commodity prices on CPI inflation in 2011 will be mild, as moderate commodity price hikes are expected. It is further supported by the limited pass-through effects of the PPI. These factors, together with the mild recovery of the US and Euro zone economies, stability of inflation expectations, and lack of second round effects on wages, will prevent an overheating in the US and Euro zone. We forecast CPI inflation to be 2.1%YoY and 2.2%YoY in 2011 and 2012 respectively in the US, and 2.0%YoY and 1.9%YoY in Euro zone.

The impact on GDP is also to be limited this year. In terms of impact of energy shocks across sector, the tradition and transportation sectors are affected negatively most given their high intensity in energy consumption. The high tech sectors with less exposure to energy consumption are affected less, while the consumption oriented sectors are to be affected latest, as they position at the downstream of the production chain.

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Performance of stock or sector relative to MSCI-China over next 6 months after research publications

	Rating	Remark
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	Overweight	Relative performance over MSCI-China Index 5% ~ 20%
	Hold	Relative performance over MSCI-China Index -10% ~ 5%
	Sell	Relative performance over MSCI-China Index > -10%
	NR	Not rated
Sector rating	Outperform	Relative performance over MSCI-China Index >10%
	Neutral	Relative performance over MSCI-China Index -10% ~10%
	Underperform	Relative performance over MSCI-China Index > -10%

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